

Legal Services Corporation Office of Inspector General

Audit Bulletin 2000-01 (February 4, 2000)

AUTHORITIES: The Inspector General Act of 1978, as amended, 5 USC App. 3, §§ 4(a)(1) and 4(b)(1) and Public Law No. 106-113 (1999).

INTRODUCTION: The Office of Inspector General (OIG) is issuing this audit bulletin to inform Independent Public Accountants (IPAs) and Legal Services Corporation (LSC) grantees of potential problems with grantee audits and to provide suggestions on mitigating them. The bulletin does not establish new audit or regulatory requirements.

In 1999 the OIG conducted 60 Audit Service Reviews (ASRs) which were limited scope quality control reviews of IPAs' audits of LSC's grantees. The OIG reviewed audit working papers to determine whether the IPAs adequately tested the grantees' compliance with 14 specific LSC laws and regulations. The reviews disclosed that 11 of the 60 audits required some corrective action. Five of the eleven audits were deficient because of a flaw in the case samples, audit tests were not adequate or the audit did not comply with auditing standards. The six other audits had less significant deficiencies in the testing of a few regulations. The areas where the audits could be improved are case sampling, tests of compliance with LSC laws and regulations, and working paper documentation. In addition, this bulletin includes other information requiring IPAs' attention.

CASE SAMPLING

The December 1998 Compliance Supplement identifies 14 LSC regulations and Other Statutory Prohibitions that must be tested through a review of a sample of case files. The results of the IPAs' tests of case files support, in large part, the auditors' opinions on compliance with LSC laws and regulations. However, the 1999 ASRs disclosed that some IPAs were selecting and verifying very small case samples that may not have been sufficient to support an opinion on compliance. For example, a few IPAs verified samples of 10 cases or less when the grantees' population of cases totaled in the thousands.

We recognize that auditor's judgement is a significant factor in determining sample size and are not prescribing a required minimum sample size. However, a sample size below a certain minimum does not provide adequate audit coverage. That minimum will vary depending upon the population of cases. We suggest that IPAs review, at a minimum, 60 case files on future audits of LSC grant recipients. This level is consistent with the guidance in the "Practitioners Publishing Company's Guide to Audits of Nonprofit Organizations" for conducting audits under Office of Management and Budget Circular A-133. The IPAs have discretion to select larger samples, and the grantees' population of cases and the adequacy of their control systems may warrant larger samples. Further guidance on audit planning considerations are in Part C of the December 1998 OIG Compliance Supplement.

IPAs should also ensure that the population of cases from which the sample is selected meets the requirements of the December 1998 OIG Compliance Supplement. The case sampling methodology must be documented in the working papers (See Part C of the December 1988 OIG Compliance Supplement).

TESTS OF COMPLIANCE WITH LSC LAWS AND REGULATIONS

The OIG's 1996 *Audit Guide For Recipients and Auditors* requires IPAs to perform grantee audits in accordance with OMB Circular A-133. This circular requires IPAs to opine on grantees' compliance with LSC laws and regulations. Generally, in order to opine under the A-133 requirements, the IPA must perform more extensive compliance testing than is done under *Government Auditing Standards*. The December 1998 OIG Compliance Supplement provides suggested procedures for testing grantee compliance. These procedures include review of grantee policies and procedures, interviews with staff and key management officials, examination of case files and verification of record keeping procedures. In most cases, the IPAs followed these suggestions and adequately tested grantees' compliance with laws and regulations. However, the ASRs disclosed some testing deficiencies, including the following:

- Testimonial evidence from management and staff members was relied on without corroborating documentation.
- Case file reviews did not test some of the regulations and the rationale for the omission was undocumented.
- Internal controls were not adequately tested.
- Documents supporting compliance with record keeping requirements were not tested to verify their accuracy.
- Program integrity certifications and other reports filed with the Corporation were not verified to supporting documentation.
- A grantee's explanation of its involvement in a class action suit was not verified by a review of case files and timekeeping records.
- Time sheets were not reviewed to determine if employees accurately accounted for time spent on cases and matters. Summary reports were relied on without determining that they were supported by individual time sheets.
- Time and attendance records were relied on to support compliance with the timekeeping requirements.
- Arrangements with private attorneys compensated by the grantees were not reviewed to determine if the collection and retention of attorneys' fees were proper under the governing regulation.

WORKING PAPER DOCUMENTATION

The working papers for several audits did not fully document the audit work performed and interviews of the audit staff were needed in order to reach a conclusion on the adequacy of the audit testing. *Government Auditing Standards* (§§ 4.35 to 4.37) require that working papers contain sufficient information to enable an experienced auditor having no previous connection with the audit to ascertain that significant conclusions and judgments are supported. In addition, the December 1998 OIG Compliance Supplement (Part A) reminded IPAs of their responsibility to adequately document their assessment of grantee compliance with laws and regulations.

Some areas that were not adequately documented in the working papers include:

- Risk assessments
- Internal controls over compliance with LSC laws and regulations
- Supervision of staff, especially when consultants were responsible for much of the audit work
- Records of interviews with management officials and staff too general
- Audit programs not in working papers or cross-referenced to the test work
- Conclusions noted on the audit program not supported by corresponding working papers

OTHER INFORMATION

LSC LAWS AND REGULATIONS

The laws and regulations identified in the December 1998 Compliance Supplement remain in effect. No new restrictions on the provision of legal services were added in 1999. The most significant change affecting IPAs for 1999 is that the final rule on Debarment, Suspension and Removal of Recipient Auditors (45 C.F.R Part 1641)

became effective January 3, 2000.

AUDIT SERVICE REVIEWS

The ASRs of IPA working papers are peer reviews, and as such IPAs should not bill grantees for the time they spend with OIG reviewers. The IPA's time will be minimal if audit standards and OIG guidance have been followed. LSC funds should not be used to compensate IPAs for the hours required by the ASR. Recipients should ensure that audit contracts or engagement letters recognize that the audit working papers may be subject to review by the OIG.

ACCESS TO RECORDS

IPAs are reminded that they are within the attorney client privilege and must be provided access to all grantee records needed to complete the audit. If the grantee asserts attorney client privilege and declines to provide needed documents, the IPA must immediately contact the OIG.

CESSATION OF AUDIT SERVICES

IPAs must notify the OIG when they cease providing audit services to a recipient within five days of the termination of such services (See Section II-1.I of the November 1996 Audit Guide). IPAs have not submitted such notifications consistently. The OIG must have current information on IPAs retained by LSC grantees to facilitate communication of audit guidance and information on ASRs.

CORRECTIVE ACTION PLANS (CAPs)

There is a change in the routing of CAPs from what is specified in the Audit Guide § I-9.D. Rather than forwarding CAPs to the OIG, recipients should submit the CAPs directly to LSC Management at:

[Kim Heron](#)

Office of Compliance and Enforcement
Legal Services Corporation
3333 K St NW 3rd Floor
Washington, DC 20007

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